

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Status Review

Sacaton Elementary School District No. 18

As of September 10, 2008



Debra K. Davenport
Auditor General

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STATE OF ARIZONA
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DEPUTY AUDITOR GENERAL

January 6, 2009

Governing Board
Sacaton Elementary School District No. 18
P.O. Box 98
Sacaton, AZ 85247-0098

Members of the Board:

In our December 2007 compliance review report we notified you that the District had not complied with the *Uniform System of Financial Records* (USFR) for the year ended June 30, 2006. The District was given 90 days to implement the recommendations in our report. We subsequently performed a status review of the District's internal controls as of September 10, 2008. Our review covered the deficiencies we had previously communicated to management and deficiencies included in the District's June 30, 2007, audit reports and USFR Compliance Questionnaire. The purpose of our status review was to determine whether the District was in substantial compliance with the USFR as of the date of our review. Our review consisted primarily of inquiries and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

We acknowledge the District's diligence in correcting its deficiencies. As a result, the District has complied with the USFR. However, we must emphasize that a number of deficiencies still exist. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls and to continue to comply with the USFR. We have communicated specific details for all deficiencies to management for corrections.

Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport
Auditor General

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INTRODUCTION

Sacaton Elementary School District No. 18 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$9.2 million it received in fiscal year (FY) 2007 to provide this education.

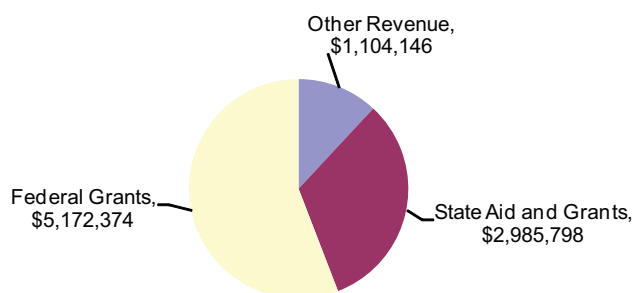
The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review, we determined that the District has complied with the USFR. However, we noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and continue to comply with the USFR. Our recommendations are described on the following pages.

District Facts Fiscal Year 2007

County: Pinal
Number of Schools: 2

Number of Students: 415
Grade Levels: K-8



Source: *Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2006-2007 and Sacaton Elementary School District No. 18 Single Audit Reporting Package for the Fiscal Year Ended June 30, 2007.*

FINDING 1

The District's controls over expenditures should be improved

The District's credit card practices did not match its approved policies.

The District spends public monies to purchase goods and services, pay its employees wages, and reimburse employees' district-related expenses, so it is essential that the District follow procedures designed to help ensure that all expenditures are appropriate and adequately supported. However, the District lacked controls to ensure that district monies were spent appropriately. Specifically, the District's credit card procedures did not follow the credit card policies approved by the Governing Board. In addition, the District did not always pay credit card charges in a timely manner and did not always retain an itemized receipt.

Recommendations

To improve controls over expenditures, the District should:

- Ensure that the credit card procedures accurately reflect the Governing Board's policies.
- Pay credit card balances in a timely manner to avoid late fees and finance charges.
- Require employees using district credit cards to promptly submit receipts to the business office, and specify the district purpose for the expenditure on the receipt.

USFR pages VI-G-7 and 8 provide guidance on the proper use of district credit cards.

FINDING 2

The District should ensure the accuracy of its accounting records and improve controls over cash receipts

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. To achieve this objective, management should ensure that its accounting records are accurate and complete. However, the District did not accomplish this objective. For example, the District did not always prepare monthly reconciliations of its cash balances to the County School Superintendent's (CSS) records and did not reconcile its records of revenues, expenditures, and cash balances to the CSS at fiscal year-end. Also, the District's records of cash balances were not always reconciled monthly to the County Treasurer's records by either the CSS or the District. Further, expenditures were not always classified correctly, and journal entries were not always reviewed and approved by an authorized official.

The District's records were not reconciled to the County School Superintendent's or County Treasurer's records for the months of May through August 2008.

Recommendations

To help ensure the accuracy of its accounting records and to improve controls over cash receipts, the District should:

- Reconcile its cash balances by fund monthly and its records of revenues, expenditures, and cash balances by fund, program, function, and object code to the CSS' records at least at fiscal year-end.
- Reconcile its records of cash balances to the County Treasurer's records at least monthly. All reconciliations should be in writing and reconciling items should be investigated and resolved.
- Record all expenditures in accordance with the USFR Chart of Accounts (§III).
- Ensure that journal entries are reviewed by an appropriate district official not responsible for making the journal entry and signed to indicate approval.

USFR pages VI-B-8 and 9 include reconciliation procedures.

FINDING 3

The District should ensure the accuracy of its student attendance records

The State of Arizona provides funding to school districts based on membership and attendance. In turn, the State requires school districts to maintain accurate attendance records to ensure that districts receive the appropriate amount of state aid. However, the District did not maintain accurate student attendance information. Specifically, the District did not always calculate partial-day attendance correctly. Calculation errors occurred for kindergarten, elementary, and junior high students, and as a result, the District may not have received the appropriate amount of funding.

Recommendations

To help ensure the accuracy of its student attendance records, the District should record and report absences as follows:

- For kindergarten students, if the instructional time for the year is 692 hours or more, students not in attendance at least one-half of the day should be counted as absent. Half-day absences are not reported for kindergarten students.
- For students enrolled in first through eighth grades, if attendance is based on half days, students in attendance for less than one-half of the day should be counted as absent for a full day; students in attendance for at least one-half of the day, but less than three-quarters of a day, should be counted as absent for one-half of the day; and students in attendance for at least three-quarters of a day should be counted in attendance for a full day. Attendance should be taken at least twice daily.

ADE provides guidance for attendance-reporting requirements in its *Instructions for Required Reports*.

FINDING 4

The District should establish procedures to document and address conflicts of interest

A.R.S. §38-503 requires that Governing Board members, officers, and employees make known any substantial interest they have in any contract, sale, purchase, or service, and refrain from voting or participating in such contract, sale, or purchase. The interest must be disclosed in writing and retained by the District in a file exclusively for that purpose. Such files are public record. However, the District did not have procedures to periodically inform employees of these requirements and ensure that conflicts of interest are identified and disclosed.

Recommendations

To help ensure that the District identifies and documents all conflicts of interest with its employees and Governing Board members, the District should establish a procedure to periodically notify employees and Governing Board members of the requirement to disclose conflicts of interest. In addition, the District should require employees and Governing Board members who have, or whose relative has, a substantial interest in any district contract, sale, purchase, service, or decision to file a conflict-of-interest statement and refrain from voting upon or otherwise participating in any manner as an officer or employee in such contract, sale, or purchase. A.R.S. §38-502(9) defines a relative as a parent, child, sister, brother, spouse, grandchild, grandparent, mother-in-law, father-in-law, brother-in-law, sister-in-law, or stepchild.